Agenda Item No.____________

File Code No. 560.04

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: April 14, 2009

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Airport Terminal Project – City Financing Of Joint Use Rental Car Facility

RECOMMENDATION: That Council:

A. Authorize the Airport Director to execute, in a form acceptable to the City Attorney, Amendment Number 2 to the Airport Promissory Note dated July 1, 2008, in the amount of $7.8 million, to extend the maturity date of said promissory note from June 30, 2009, to July 13, 2009;

B. Authorize the Airport Director to execute, in a form acceptable to the City Attorney, a $7.3 million Airport Promissory Note at an interest rate of the higher of 6.5% or the LAIF rate, but not to exceed 9%, and with a 20-year term, to finance the recently constructed Joint Use Rental Car Facility; and

C. Authorize the Finance Director to purchase the Airport's 20-year Airport Promissory Note on behalf of the City's investment portfolio.

EXECUTIVE SUMMARY:

The Airport Terminal Project includes the construction of a new joint use rental car facility (the "facility") for use by the rental car companies serving the Airport. Interim financing for the facility has been provided by the issuance of a $7.8 million Airport promissory note that the City purchased into its investment portfolio. This mechanism provided the Airport with interim financing for the facility while earning an above-market return for the City's investment portfolio.

The original plan was to repay the promissory note from the proceeds of the Airport's Terminal Project bond issue. However, Staff is now recommending that, rather than include financing for the facility in the Terminal Project bond issue, the City finance the facility through the issuance of a 20-year Airport promissory note at an interest rate of the higher of 6.5% or the LAIF rate, but not to exceed 9%, which would be purchased into the City's investment portfolio. Doing so will accomplish at least three things:

1. Simplify the issuance of the Terminal Project bonds by removing a separate, taxable component for the facility. This will result in a more standard, totally tax-exempt Terminal Project bond issue which will likely be easier to market.
2. Provide a secure investment for the City's portfolio at a rate of return well above rates currently available from other permitted City investments.
3. Provide the Airport with significant savings in the financing costs for the facility. The recommended 6.5% interest rate is well below the rate the Airport would pay to finance the facility though the issuance of bonds. There are also no costs of issuance.

DISCUSSION:

In July 2008, the City Council approved the issuance of a $7.8 million Airport promissory note which the City purchased as an investment. The promissory note was issued at an interest rate of 6.5%. The proceeds of the promissory note allowed the Airport to begin construction of a new joint use rental car facility prior to the issuance of the Airport bonds and the commencement of the main terminal project. This was necessary because the existing rental car facility had to be demolished prior to beginning construction of the Terminal Project. It was therefore necessary to construct the replacement rental car facility before the main Terminal Project began. Construction of the new rental car facility is now almost complete. In December, 2008, Council authorized an amendment to the Airport promissory note, extending the maturity date to June 30, 2009.

When the promissory note was approved by Council, it was anticipated that it would be repaid by the Airport from the proceeds of the Terminal Project bond issue. Those bonds will be issued later this month. Unlike the bonds for the main Terminal Project, the bonds issued to finance the rental car facility would be taxable bonds because the rental car facility is leased to for-profit businesses. Therefore, the Airport bonds would need to be issued in two series – a tax-exempt series for the main Terminal Project and a taxable series for the joint use rental car facility. The Airport's financial advisors indicate that the taxable bonds would sell in today's market at an interest rate of approximately 8.5%.

After careful analysis and discussions with the bond financing team, Staff is now recommending that the City provide the financing for the facility rather than including it in the Terminal Project bond issue. This would be accomplished by authorizing the issuance of a 20-year Airport promissory note at an interest rate of 6.5% which the City's Finance Director would then be authorized to purchase on behalf of the City's investment portfolio.

As mentioned above, doing so provides advantages to both the Airport and the City. For the Airport, this will provide cost-effective financing at less than market rate for a taxable bond and will do so without incurring any transaction costs. For the City, purchase of the Airport promissory note will provide a secure investment at rates well above what the City earns at present on its portfolio. The investment will be secure because it has a dedicated source of repayment. As Council may recall, debt service on the rental car facility will be paid by a rental car Customer Facility Charge (CFC) that has been in place since January 1, 2006. The CFC is a $10 surcharge per rental car contract on all rentals at Airport rental car locations. Since inception, the City has collected just over $2 million in CFC revenue. A portion of the CFC revenue was used to design the facility and we currently have approximately $900,000 in unspent CFC revenue. Staff is recommending that $500,000 of the CFC revenue currently on hand be used to lower the principal amount of the promissory note from the $7.8 million on the interim promissory note to $7.3 million for the long-term promissory note now recommended by Staff.

Attachment 1 is an amortization schedule for the proposed Airport promissory note. The annual debt service on the note will be $670,482. This amount is almost exactly the amount of annual CFC revenue projected to be collected over the next several years. Beginning in 2011, CFC revenue is projected to grow at approximately 2% per year which, if realized, may permit the Airport to accelerate payment on the debt. While staff believes that the assumptions and projections are reasonable, even if the reality over the next several years falls below projections, the Airport should have no problem making at least interest payments on the debt.

<u>Permitted Investment</u>

The purchase on the Airport promissory note by the City's investment portfolio is expressly permitted under both the State public investing code and the City's investment policy. Section 53601 of the State's public investing code authorizes investments in:

53601 (a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

53601 (e) Bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

The State public investment code does, however, limit City investments to a maximum term of five years from the date of purchase unless the legislative body (the City Council) has granted express authority for the purchase of an investment of longer than five years no less than three months prior to making the investment. In order to comply with this State code requirement, Staff is recommending that Council approve an amendment to the current short-term Airport promissory note, currently due to mature on June 30, 2009, extending the term to July 14th. The long-term promissory note will then be issued as of July 14, 2009 and will mature on June 30, 2029. As mentioned, Staff recommends that the initial interest rate be 6.5%. In order to protect the City's investment portfolio from potential rising market interest rates in the future, Staff further recommends that the promissory note contain a provision setting the interest rate at 6.5% or the LAIF rate, whichever is higher, but not to exceed 9%. As Council will recall, LAIF (Local Agency Investment Fund) is the money market fund run by the State Treasurer which Santa Barbara, like most cities throughout the State, uses for overnight investments. Currently, the LAIF rate is approximately 1.9%.

<u>Summary</u>

Having the City finance the Airport's joint use rental car facility will simplify the marketing of the tax-exempt Terminal Project bonds, will provide the Airport with lower cost financing without transaction costs and the City's investment portfolio with a secure investment at a rate of return well above the current market rates available to the City on its investments. Staff recommends Council approval of this financing option.

ATTACHMENT: Airport Promissory Note Amortization Schedule

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office

Attachment

City of Santa Barbara
Airport Terminal Project
Joint Use Rental Car Facility
City Financing Amortization Schedule
By Fiscal Year

Loan Date:	7/1/2009
Note Amount:	$ 7,300,000
Interest Rate:	6.50%
Term (years):	20

Fiscal Year	Interest	Principal	Total	Balance Due
2010	$ 471,527.75	$ 185,880.18	$ 657,407.92	$ 7,114,119.82
2011	459,249.20	198,158.73	657,407.92	6,915,961.10
2012	446,159.58	211,248.35	657,407.92	6,704,712.75
2013	432,205.30	225,202.62	657,407.92	6,479,510.13
2014	417,329.26	240,078.66	657,407.92	6,239,431.46
2015	401,470.57	255,937.36	657,407.92	5,983,494.10
2016	384,564.30	272,843.62	657,407.92	5,710,650.48
2017	366,541.28	290,866.65	657,407.92	5,419,783.84
2018	347,327.72	310,080.21	657,407.92	5,109,703.63
2019	326,844.98	330,562.94	657,407.92	4,779,140.69
2020	305,009.23	352,398.69	657,407.92	4,426,742.00
2021	281,731.10	375,676.83	657,407.92	4,051,065.17
2022	256,915.29	400,492.63	657,407.92	3,650,572.54
2023	230,460.25	426,947.67	657,407.92	3,223,624.87
2024	202,257.69	455,150.23	657,407.92	2,768,474.63
2025	172,192.17	485,215.75	657,407.92	2,283,258.88
2026	140,140.64	517,267.28	657,407.92	1,765,991.60
2027	105,971.90	551,436.02	657,407.92	1,214,555.58
2028	69,546.11	587,861.82	657,407.92	626,693.76
2029	30,714.16	626,693.76	657,407.92	0.00
Totals	$ 5,848,158.49	$ 4,531,525.37	$ 9,861,118.87	